BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 95-1243-S - ORDER NO. 96-636

SEPTEMBER 20, 1996

IN RE: Application for Approval of an Increase in its Sewer Rates and Late Charge Fee for the Shoals Sewer Company.	) ORDER) GRANTING) INCREASE IN) RATES AND) CHARGES

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of Shoals Sewer Company (Shoals or the Company) for approval of an increase in its sewer rates and the establishment of a late charge fee. This request was filed under the authority of S. C. Code Ann.§58-5-10 et seq. (1976), and the Rules and Regulations of the Commission. For the reasons stated below, the request is granted.

The Commission's Executive Director requested the Company to publish, one time, a Notice of Filing on this case in a newspaper of General Circulation and to notify all customers of the Company's request for an increase in rates and charges. The Company filed proof that it had complied with the instructions of the Executive Director. A Petition to Intervene was received from the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing was held on September 4, 1996 in the offices of the Commission. Pursuant to S. C. Code Ann.§58-3-95 (Supp. 1995) a panel of three Commissioners heard the matter, with the Honorable Guy Butler, Chairman, presiding. Commissioners Mitchell and Bradley made up the remainder of the panel. D. F. Allen appeared for the Company pro se. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel, and presented the testimony of Bruce Hulion and Charles Creech.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received in the evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. Shoals Sewer Company is a sewer utility providing sewer service in its service area in Anderson County, South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann.§58-5-10, et seq. (1976, as amended).

2. The appropriate test period for the purposes of this proceeding is the twelve-month period ending December 31, 1995.

3. The Company is seeking an increase of its rates and charges for sewer service of $7,910.

4. The appropriate per book operating revenues for the Company for the test year under present rates are $19,250.

5. The appropriate operating expenses for the Company's operations for the test year per book under its present rates are $27,920.

6. The Company's appropriate level of net operating income for return per books is ($8,670)

7. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

8. A fair operating margin that the Company should have the opportunity to earn is 4.37% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

9. The rate designs and rate schedules approved by the Commission as described herein are appropriate and should be adopted.

10. The rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after October 1, 1996.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1.

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the Docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 2 AND 3.

The evidence for these finding concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of Company witness Allen and Staff witness Hulion.

The Company's filing was based on a test period consisting of the twelve months ending December 31, 1995. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same period.

A fundamental principle of the ratemaking process is the establishment of a test year period. The Commission finds the twelve months ending December 31, 1995, to be the reasonable period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4.

The evidence for the findings concerning the level of operating revenues is found in the testimony and exhibits of Company witness Allen and Commission Staff witness Hulion. For purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates per book is $19,250. Using the Commission's Finding of Fact No. 8 and the Evidence and Conclusions, infra., approving a 4.37% operating margin, the Company's operating revenues shall be $29,136.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 5 AND 6.

Operating expenses per book for the test year were $27,920 as reflected in the testimony of Company witness Allen and Staff witness Hulion. The Commission hereby approves all adjustments as proposed by the Staff. The Company proposed no adjustments. We believe that the adjustments as proposed by the Staff are fair and reasonable, are based on the evidence, and should be adopted as presented.

We therefore hold that the operating expenses for the test year are $27,920, and the Company's appropriate level of net operating income for return is ($8,670).

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF
FACTS NOS. 7, 8, 9, AND 10.

Under the guidelines established in the decisions of Bluefield Water Works and Improvements Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann.§58-5-290 (1976) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a pubic utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the South Carolina Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For sewer utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Commission finds that its use of the operating margin has resulted in fair rates to both the utility and ratepayer. In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year under the presently approved schedules; the Company's operating expenses for the test year; and the operating margin under the presently approved schedules for the test year.

TABLE A

Operating Revenues	$19,250
Operating Expenses	27,920
Net Operating Income (Loss)	(8,670)
Add: Customer Growth	-0-
Total Income for Return (Loss)	(8,670)
Operating Martin (After Interest)	(161.09%)

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding; the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

> ...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.
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> Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company.

Based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 4.37% which requires annual operating revenues of $29,136. The following Table reflects an operating margin of 4.37%:

TABLE B

Operating Revenues	$29,136
Operating Expenses	26,189
Net Operating Income	2,947
Customer Growth	31
Total Income for Return	2,978
Operating Margin (After Interest)	4.37%

The Commission finds that this operating margin provides additional annual revenues of $7,910 after all approved adjustments. The Commission holds that this additional revenue shall be derived by an increase in the present flat rate for service from $18.00 to $25.00 per month for the Shoals (per unit), and an increase in the rate for Anchor Point Condominiums from $648.00 per month to $900.00 per month. Evidence was also presented through the testimony of Company witness Allen that a $5.00 late charge would be appropriate for consumers who are past due in paying their bills. The Commission finds that this charge is also appropriate. This rate structure appears in Appendix A attached hereto. The Commission finds that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED THAT:

1. The originally proposed schedule of rates and charges by the Company is found to be reasonable and is hereby granted.

2. The schedule of rates and charges as attached hereto as

Appendix A is hereby approved for service rendered on or after October 1, 1996. The schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann.§58-5-240 (1976), as amended.

3. The Company shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Sewer Utilities, as adopted by this Commission.

4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director

(SEAL)

APPENDIX A

SHOALS SEWER CO.
99 HARBOR DR.
ANDERSON, SC 29625

FILED PURSUANT TO DOCKET NO. 95-1243-S ORDER NO. 96-636
EFFECTIVE DATE: OCTOBER 1, 1996

SCHEDULE OF SEWER RATES AND CHARGES

CLASS OF CUSTOMER		CHARGE
The Shoals (per unit)	-	$ 25.00 Monthly
Anchor Point	-	$900.00 Monthly
Late Fee Notice	-	$ 5.00
Tap Fee (per unit)	-	$500.00